19

The Causes of the Late Panic, the Dangers of Inflation, and the Remedy for our Financial Troubles.

SPEECH

OF

HON. WASHINGTON TOWNSEND,

OF PENNSYLVANIA,

IN

THE HOUSE OF REPRESENTATIVES,

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SPEECH

OF

HON. WASHINGTON TOWNSEND.

Mr. TOWNSEND. Mr. Speaker, the people of the nation are suffering under adverse circumstances very similar to those that followed the various suspensions of specie payments during the old system of banking which existed previous to the rebellion.

Many of the wheels of industry have ceased to run; great enterprises have been stopped; agriculture, manufactures, and commerce seem to have refused to make their usual profitable returns, and the labor of the nation appears to be paralyzed.

The suspension of Jay Cooke & Co., which was, to unreflecting minds, the cause of this great interruption of our national prosperity, was in reality but an effect of greater causes, operating, not only on them, but on the residue of the nation at large.

True it is that the stoppage of that firm was the occasion of other institutions failing to pay their liabilities; and as one great banking company has always minor ones connected with it, a suspension of payments by the former too often carries down the latter. These repeated suspensions awaken a distrust in the public mind, and the timidity of depositors and note-holders of banks and bankers causes them to make a run on institutions which are their debtors. They in turn, to sustain themselves, must call on those who owe them, and the demand for immediate payment by the creditors on their debtors, added to the want of confidence, creates a panic and a state of affairs that can only be checked by a suspension of payments, which causes everywhere financial confusion and distress.

The banks of the great cities, when they recently refused to pay checks in currency, and only by certification receivable on deposit and through the clearing-houses, suspended payment as much as did the banks under the old system when they refused to pay specie. They were not bankrupt; but as no bank can at any time pay all its demand debts, such as circulation and deposits, if suddenly called upon, it became necessary for the banks to refuse currency payments until they had time to collect their assets, or until confidence should be restored.

This measure of safety, however, has so far disturbed the business arrangements of the great interests of the country that railroad enterprises have been stopped, manufactories have been closed, agriculture has stagnated, thousands of men have been thrown out of employment, and poverty and despair have stalked sullenly through the land.

From a state of apparent prosperity we are suddenly struck down, and are now suffering all the ills of a severe adversity.

Political economists are speculating as to the cause of these disasters, and suggesting what they consider appropriate remedies, and the people generally are looking toward Congress for relief.

Unfortunately, however, the old sentiment, that "in the multitude of counselors there is safety," does not seem to be applicable now, for the multitude of able writers who tender their advice to Congress entertain views so divergent and antagonistic that it is impossible to adopt them all, and difficult to determine which is the best.

The wisest way, in my judgment, to attempt to cure any great financial disturbance, is first to seek its cause, just as the best method of healing a disease of the human system is first to ascertain its origin.

It seems to me that the whole suffering we at present experience is the result of what is familiarly known as "overtrading." The American mind is exceedingly expansive, progressive, and speculative. With a whole continent open to improvement and development; with vast mines of the precious metals, and all other kinds of minerals, ready to repay labor for its exercise; with illimitable virgin prairies awaiting the plow of the farmer; with boundless forests ready to furnish untold quantities of lumber; with every avenue to industry open to all, and with political institutions insuring equality of political rights and encouraging the industry of the people, we can scarcely avoid exercising our energies to the utmost, and running into excesses that produce financial revulsions.

We have overtraded in almost every direction. Our railroad system is, perhaps, the most notable example. In 1860 we had 30,635 miles of railroad completed; in 1870 we had 52,898 miles; and at the present time it is said that we have 67,000 miles finished at a cost of over $3,200,000,000; the extent of railroad having more than doubled in the last ten years, and being a greater length of railroads than is owned by all the rest of the world together.

We have run railroads out on the prairies far beyond the bounds of civilization and settlement, hoping that settlement and cultivation would follow along so rapidly that the traffic they made would afford at least sufficient funds to pay expenses and interest on their bonds. We have built them up through mountain cañons and defiles, to mining establishments, with the expectation that the profits from the precious metals would make such roads self-sustaining. We have extended them everywhere that the speculative fancy of their promoters induced them to believe that they would prove beneficial to the stockholders or to the speculators in town sites through which they were to pass.

This expansion of railroad operations was far too rapid to be a healthy one. That the development was impolitic, and that the hopes of the projectors were far too sanguine, is shown by the last volume of Poor's Railroad Manual, the best authority on the subject. It is there said:

> The leading railroad companies of the West are largely responsible for the excess of mileage that has been constructed. The Milwaukee and Saint Paul Railway has increased from eight hundred and thirty miles in 1868 to thirteen hundred and ninety-six in 1872. Its stock and bonds have, in the same time, increased from $30,578,618 to $56,290,644, while the earnings have only increased from $6,577,645 to $6,957,771. Nearly the whole increase of mileage has proved unproductive. The Chicago and Northwestern Railway has also enormously increased its mileage in the construction of branch lines, so that the gross revenue on its investments is considerably below the average for the Western States. It is increasing its bonded debt to $48,000,000, to complete the various enterprises which it has undertaken. Its share capital at the close of the fiscal year for 1872 amounted to $35,878,644. To these two sums is to be added the capital of its leased lines, making an aggregate of nearly $100,000,000, with earnings at the rate of the last fiscal year of only about 11 per cent. While these vast additions to mileage and cost have been going on the earnings of the road have declined from $12,614,846 in 1868 to $11,402,161 in 1872.
>
> The stockholders of these roads should put a stop to a policy so suicidal—a policy which is working more mischief to the railroad interests of the country than all other causes combined, and which, unfortunately, has been indulged in, though in a less degree, by other roads than those named.

For a part of these wild operations in the Western and Northwestern States and Territories, Congress is responsible by making to railroads extensive grants of public lands through which they pass in quantities of alternate sections to the distance even of forty miles on each side of said railroads, equal in extent to European principalities.

These grants were obtained through the influence of members honestly interested in the development of their sections of the country, and by the urgent solicitations of importunate lobbyists, whose pertinacity arose from a less creditable motive.

The whole amount of public lands already certified to these railroads is 30,000,000 acres, and the whole amount which will be certified when the roads are completed will not fall short of 200,000,000 acres.

The vast expenditure of money already made in the construction of these western roads is, as already shown, largely unremunerative. It is to a certain extent dead or unproductive capital, withdrawn from the usual channels of active trade and commerce where most needed, and consequently depriving them of that much of the aliment by which they are sustained. Few, indeed, of these roads there be that pay dividends to their shareholders. On the 1st of January last, one hundred and fifteen railroads, representing one hundred and seventy-six millions of capital, with twenty-seven millions of interest due and payable that day in New York, defaulted in their payment. This does not include a large number of defaulting railroads whose interest was payable elsewhere.

This artificial and unnatural stimulus to the railroad system was the proximate cause of the establishment of great numbers of iron works, from the furnace to the rolling-mill, and the building up of various locomotive works, machine and car shops, and other mechanical industries that contributed to their operations, whilst dependent upon them for support.

These immense undertakings stimulated emigration from abroad, and the good wages paid out by the railroads and all establishments connected with them, enabled laborers and their families to consume more of the necessaries and comforts of life, and thus urged to unusual activity the manufacturers of dry-goods, agricultural implements, and the culture of the great staples, wheat, corn, and cotton.

Thus the workings of the extending railroad system alone, although others were not idle, directly and indirectly induced a factitious prosperity, and urged into an excessive vitality a great variety of industries that absorbed a larger amount of capital than the ordinary business of the country required.

In addition to the fixed capital necessary for these gigantic undertakings, a large amount of bank discounts was demanded by brokers and speculators in these railroad stocks and bonds which were made their footballs, and tossed to and fro in the market by the bulls and bears of the New York stock exchange until the clearings of the New York clearing-house amounted to over $100,000,000 per day.

In confirmation of my statement, let me say that the Comptroller of the Currency in his last most able and exhaustive report makes the statement that—

> The immediate cause of the crisis is, however, more apparent. The money market had become overloaded with debts. The cost of railroad construction for five years past had been $1,700,000,000 or $340,000,000 annually; while debt based upon almost every species of property, State, city, town, manufacturing corporations, and mining companies, had been sold in the market.
>
> The present financial crisis may, in a great degree, be attributed to the intimate relations of the banks of the city of New York with the transactions of the stock board, more than one-fourth, and in many instances nearly one-third, of the bills receivable of the banks since the late civil war having consisted of demand loans

to brokers and members of the stock board, which transactions have a tendency to impede and unsettle, instead of facilitating the legitimate business interests of the whole country.

To this I may add that it took sixty-six years for the bank discounts of the nation to reach five hundred millions, which was the amount loaned out to individuals by the national banks on January 1, 1866. In less than eight years, say on September 12, 1873, their discount line had reached nine hundred and forty millions, being an increase of 88 per cent. in that short space of time. The circulation and deposits rose in the same time from eight hundred and ten to nine hundred and eighty millions, while the reserve of legal-tenders and specie and certificates of deposit fell from two hundred and six millions, or 25 per cent., to one hundred and thirty-one millions, or 13¼ per cent. of the immediate liabilities, being far below the average requirements of the law.

The legitimate business wants of the country did not warrant such a rapid inflation of bank credits with such a fearful decrease of that safety fund, the bank reserves. It was largely produced by the pernicious system of the payment by the banks of New York City of interest on deposits. After the suspension of 1857 the wiser managers of the New York banks saw that the practice had tended much toward that catastrophe, and in 1858 a committee of bank officers made a strong and able report condemning the practice and urging its discontinuance. Their counsels, however, did not prevail, and the practice was persisted in. Since the late panic the attention of a committee of the clearing-house of New York has again been called to it, and it is again denounced; and the evil effects it has had by inflating the credit system of the country, and weakening the reserves and leading to panics, is very ably set forth in the report of that committee. It is therein said that—

Deposits which are derived from strictly commercial operations cannot fluctuate so widely from time to time as to produce disturbance in the community; and banks which confine their business to them, as they naturally arise, are always reliable and regular in their treatment of their dealers, and can be conducted with ease and comfort to their managers and safety to the public. On the contrary, deposits which are purchased by payment of interest, or otherwise, and which must, therefore, of necessity be largely loaned on demand, are the cause of continual agitation and solicitude to those who hold them in charge. They are certain to be withdrawn at the season of the year and at the moment most inconvenient to the banks and their dealers.

The average deposits of the 60 clearing-house banks, for ten weeks, from 5th July to 6th September, were		$232,228,000
The lowest amount reached since the panic was		143,170,000
Showing a total reduction of		89,058,000
Of the above amounts, during the ten weeks 12 interest-paying banks held	$111,585,000	
The lowest total reached by them since the panic	52,669,000	
Showing a loss in 12 banks of		58,916,000
And in the other 48 banks of		30,142,000

And were it not for the fact that several of the 48 banks are more or less involved in the same practice, this disparity would be still more apparent.

When the late panic commenced, the 60 banks composing the New York clearing-house were indebted for about $200,000,000 of deposits. Of this amount 3 institutions (paying interest to the country depositors) owed about $50,000,000, and, including these, 12 banks of similar character owed about $100,000,000; that is to say, 12 institutions held one half of the aggregate deposits, and the other 48, their associates, the other half.

The proportionate reserve of legal-tender notes in the associated banks was also greatly in favor of the latter number, for the obvious reason that the banks which pay interest upon money can least bear to have any amount of it idle. The active demand first came, as it usually comes, for that portion of deposits due to country banks, who, in addition to their annual necessities, had been disturbed by failures of several city bankers holding large balances of money due to the interior.

These deposits were to a great extent loaned upon stocks and bonds in Wall street, payable upon call, with the confident belief that they were there earning more than the interest paid for securing them, and were available as promised. But, from the very nature of the case, the rapid withdrawal of deposits from the banks made the call from every direction simultaneous, and closed every resource upon which the "street" derived its power to respond.

The Comptroller of the Currency, in his late report, also condemns the practice as demoralizing to the business of banking. In addition, however, to the mischief of paying interest on deposits, the banks added another in direct violation of law. The act of March 3, 1869, makes it a grave offense against a bank to permit any of its officers to certify a check on such bank unless there be funds to the credit of the drawer of the check sufficient to meet it, yet it was the daily custom of many of the banks to do it. That report says:

So extensively has this practice been pursued by several institutions that the amount of such checks, which have passed daily through the clearing-house, has reached in some instances to twice and three times, and in one or two instances, to four and five times, their capital stock, and this through long periods of time.

From all this it will be seen that our present difficulties are the result of an inordinate and uncalled-for expansion of the railroad system; a vicious custom of banks paying interest on deposits, thereby imposing on them the necessity of lending those deposits to brokers and speculators "on call;" certification of checks when no funds were on deposit, thus affording an improper credit to the drawer without any substantial foundation; and a resulting deficiency in the reserves so great that the slightest panic drove the banks into suspension for want of ready money to meet a run upon them.

This was inflation, speculation, an expansion of the credit system to an unnatural extent, in short, a financial bubble; and when the credit of great corporations and banking-houses had been stretched to its utmost tension, and when the touch-stone of demand of payment came to be applied, by the withdrawal of country bank balances and merchants' deposits, the bubble collapsed and the distress we now experience ensued.

This abnormal condition of things has thrown the currency of the country into unusual channels, and as capital is always timid, it has driven it into holes and corners, there to lie until confidence is restored. Currency is scarce in some quarters; yet there is just as much of it in the country to-day as there was five months ago, and much more, in proportion to the business that is now done, than there was then. The difference is that those who hold it fear to let it go lest they may want it and cannot get it. Such was the fear of the banks when they suspended payment of currency, and such is the fear of the people since they found that they could not draw it from the banks on their deposits at pleasure.

To show that the people have abundance of currency, if they choose to use it, I need only state that the Comptroller of the Currency, in the same report, shows that up to November 1 last there had been issued of national-bank notes, legal-tenders, and fractional currency, seven hundred and fifty-nine millions; that the Treasury and banks held only one hundred and twenty-eight millions, leaving six hundred and thirty-one millions in the hands of the people. Since then this sum has been increased by drawing on the forty-four million reserve, and the whole sum in the hands of the people, including fractional currency, is not less than seven hundred millions.

The present unfortunate state of things has brought under consideration many devices to prevent the recurrence of a similar catastrophe.

The favorite scheme at present seems to be to create what is called

'an elastic currency" that will regulate itself; that can be issued when the wants of the people require it, and will be withdrawn when the exigency of the occasion has passed away.

The system, as I understand it, is to allow all who have surplus currency on hand that they do not need for present use to go to the national Treasury and deposit it there, and receive from the Treasurer certificates of loan or bonds bearing a low but fixed rate of interest, say 3.65 per cent.; and when they find they can use the money to return to the Treasurer, deliver the bonds, and receive their face amount with the accrued interest. In the language of a New York writer on political economy:

> In this interchange of currency for bonds and bonds for currency they discern a subtle principle that will regulate the movements of finance and commerce as accurately as the motion of the steam-engine is regulated by its governor.

Two objections to this "subtle principle" present themselves at once: the first is that the whole volume of the currency will not be enlarged by this process, and consequently the extra amount of paper money sought for by the friends of an elastic currency will not be obtained; and the second is, that the Government will be made the custodian of the people's idle funds, and will have to pay interest for the privilege of holding them without receiving any equivalent. Being payable on demand the Government could not safely use the deposited currency in the payment of any of its debts, because it must be ready to pay out that currency whenever demanded; and occasions would arise, such as the last panic disclosed, when the whole amount of deposited currency would be called for and would find the Government unprepared to refund.

If, however, the system contemplates that the people shall have more currency as they think they need it, on a convertible 3.65 per cent. loan, as is suggested by my colleague from Philadelphia [Mr. KELLEY] and others, the Government must issue the new kind of loan so as to be accessible to the people. For what purpose would it issue it? If the revenues of the country are sufficient, with economy and moderate appropriations, to pay its current expenses and interest on the debt as they have been and still ought to be, the only other purpose for which it could be issued would be to redeem the 6 per cent. bonds.

The 6 per cents, if overdue, must be redeemed in gold or its equivalent, and in redeeming them in the 3.65 per cent. loan the nation must lose the difference between the value of the new loan in the market and the value of the 6 per cents, whatever that might be—perhaps not over 70 per cent. in the market.

An enlarged issue of currency interchanged for those bonds or any part thereof, when returned to the Treasury, might afford temporary relief, but at the same time it would be simply inflation, causing a rise in prices, and that rise would then require the whole amount thus issued to transact the business of the country at the increased prices the inflation had made; this "elastic currency" would never contract, and money would appear to be as scarce as ever; it would not be returned to the Treasury in exchange for the 3.65 per cents, for its use would be worth more than the interest on that loan. Such has been the experience of the country under the old banking system, under which the currency was so elastic that the banks had no difficulty in issuing all that the business channels of the nation could possibly be forced to absorb, and such it would be again.

In addition to the mischiefs of the inflation, the depositors of the bonds would be receiving 3.65 per cent. interest over and above all they could make from the use of the currency thus drawn from the

national Treasury, giving them a far greater advantage than the national banks have at the present time.

It is contended, however, that in dull times the currency would be returned and the bonds withdrawn from the Treasury as a safe investment for idle money. As, however, it is contemplated that they may be used as a bank reserve, they would drift into the bankers' vaults, releasing an equal amount in greenbacks, and thus adding to the inflation of the currency; for the legal-tenders thus released would undoubtedly be invested, and most probably on loans "at call," with a perpetuation of the mischiefs we have so recently suffered.

The plan suggested would be a valuable one to the stock-jobbers and speculators of Wall street, and enable them to make "corners" with more facility than now. A few of them could join together and collect millions in greenbacks, and hand them to the Treasurer and receive bonds for them. This withdrawal of the currency would make a stringency in the money market: the prices of stocks and loans would fall; and when they had fallen to a satisfactory point the speculators would suddenly return their bonds to the Treasury, demand and receive their currency, with interest added, and before the public was aware could have it invested, through their brokers, in stocks and loans at the average low figures they had caused. The demand thus made would create a rise in prices, and in a few weeks they could sell out their purchases again at an advance; and thus they could repeat the operation from time to time, to their own profit and the loss of the people, while the Treasury of the nation, without receiving any benefit, would pay them, in the shape of interest on their deposited bonds, for their shrewdness in the operation. They could well afford to pay a heavy bonus for the establishment of such a system of watered currency.

Another scheme for the production of "an elastic currency" is advocated in what is called "free banking."

It sounds well and seems very proper that one man should have as good a chance to make money by banking as another. It savors of opposition to monopoly, and monopolies are always odious. This project, as I understand it, is, that every association of half a dozen or more persons may deposit United States bonds with the Comptroller of the Currency and receive circulating notes to a certain amount, say 90 per cent. of the bonds deposited, under the same restrictions and taxes as are imposed on the national banks. Under this system bank-notes could be issued to the amount of the bonds that would be collected together in this country; which amount, deducting the bonds already held for the basis of currency, and that held in Europe, would not be less than $500,000,000.

The volume of currency would then be swelled to that amount if the business of the country could be made to absorb it, and it would absorb it to a large extent; for every new emission, by adding to the volume of circulation, would cheapen its value, as I have said before, and as that value became reduced, more of it would be required to do the work of the people, until it would become almost worthless, and finally reduce us to general bankruptcy.

Either of these last two systems would produce a well-watered currency, but it could not be dried again, except through the hot influence of suspension of payments. They seem to me about as judicious as to permit individuals to coin dollars of such weight and fineness as they might choose.

This idea of "an elastic currency" is not new. The old banking system was based on it; but it did not prevent evils like those we are now suffering. Under the old system the banks had the power

to issue currency—"to move the crops" when they needed moving—to an almost unlimited extent, and could withdraw it when that end was accomplished. But the enlarged volume of "elastic currency" was not contracted voluntarily; it kept on increasing; the "governor" got out of order, and the extended line of credit was not shortened, except by the forcible intervention of a suspension of specie payments, such as were in May, 1837; in October, 1839; in February, 1841, and in September, 1857.

After each of those suspensions no resumption of specie payments was reached until there had been a severe contraction of the currency, just as the effort to reach a resumption of payments, even in paper money, is causing a severe contraction now. An illustration or two may be worthy of notice here.

General Jackson vetoed the recharter of the United States Bank in July, 1832, and Secretary Taney removed the deposits from that bank in September, 1833, recommending at the same time to the deposit banks to be liberal in their discounts to the mercantile and commercial community. The pet banks were not slow to take the hint, and the stimulus thus given commenced a system of inflation by the increase of the number of banks and the expansion of bank credits.

Thus, the banks increased in number from 506 in January, 1834, to 788 in January 1837; the circulation increased during the same time from ninety-four to one hundred and forty-nine millions, or 58 per cent.; the deposits increased from seventy-five to one hundred and twenty-seventy millions, or nearly 70 per cent.; the loan and discount line increased from three hundred and thirty to five hundred and thirty-seven millions, or 62 per cent.; while the specie actually decreased from forty-three millions in 1835 to thirty-eight millions in 1837.

At this latter date everything seemed prosperous; the "elastic currency" was expanding; business was active; manufactures were lively; imports were large, and in five years (from 1832 to 1836, inclusive) exceeded the exports by one hundred and forty-three millions; the sales of public lands were enormous; and General Jackson in his farewell address, when about vacating the presidential chair, congratulated the people that he left this great nation prosperous and happy. Somehow or other the "governor" of the elastic currency, which had curved out so largely, got out of order. Some of the cog-wheels broke; and in seventy days after the address a suspension of specie payments by the banks had ensued from one end of the Union to the other. Then began the issue of shin-plasters, with which the country was flooded, to make change—from the dollar and fractional notes of cities, counties, and towns, redeemable in payment of taxes, down to the issue of the village tavern-keeper, whose dimes were redeemable in sherry-cobblers, and his half-dimes payable in a drink of whisky.

The inward curve of the "elastic currency" then commenced as necessary toward resumption, and by it came contraction and suffering. From January, 1837, to January, 1838, the currency was contracted from one hundred and forty-nine millions to one hundred and sixteen millions—a heavy contraction for that day—and the discount line from five hundred and thirty-seven millions to five hundred and nineteen millions, and multitudes were reduced from comfort to poverty.

The banks resumed in May and August, 1838, but again suspended in October, 1839, and after a feeble attempt at resumption in 1841 failed again, and did not fully resume until March, 1842.

The preparation for the last resumption was a severe one, for the banks reduced their circulation from January, 1840, to January, 1843,

about $49,000,000, and withdrew from the people's use, in loans and discounts, $223,000,000.

As soon, however, as the severity of that resumption was over the banks again began the process of inflation, and gradually swelled their circulation from fifty-eight millions in 1843 to two hundred and fourteen millions in 1857, or 270 per cent.; and their loan and discount account from two hundred and eighty-two to seven hundred and forty-three millions, or 164 per cent.; while their specie only increased from thirty-three to fifty-eight millions, or 76 per cent. This great expansion of the credit system was not called for by the legitimate wants of the people, and the result was another suspension of the banks in October, 1857, to be followed by another contraction of banking credits, and confusion, distress, ruin, and despair, as before.

During this period Indiana was under a free-banking law, and the notes of one-half of her banks were at a discount ranging from 5 to 70 per cent. New York, too, had her free-bank system, based on her State bonds and on national loans; yet her system did comparatively little toward "regulating the currency" in 1857, for her banks were the first to suspend and drag nearly all the rest of the banks down with them. A cog-wheel had again been broken in their "governor."

England underwent a similar experience to our own. She was under an irredeemable currency from 1797 to 1822. She had reached the maximum of inflation in 1814, when the combined circulation of the Bank of England and the country banks amounted to £70,000,000. At the resumption in 1822 she had reduced her circulation down to £25,000,000; making a reduction of currency, in eight years, of about $215,000,000. She, too, had overtraded greatly.

From these illustrations it will be seen that the "elastic currency" of the old banking system brought about inflations that necessarily produced suspensions, because of overtrading, and these suspensions had to be followed by severe contractions, which occasioned a vast amount of distress in all the business circles of the country.

As these evils arose under banks that had some legislative check on them, what evils would not befall us under a system where the inflation of the currency would have no check upon it except the inability of the banks to buy more bonds upon which to base fresh issues of currency!

The advocates of free banking and cheap money are clamorous for more issues of paper currency. They assume that if a little money is a good thing, a good deal of it is much better. They forget the fact that every new issue tends to raise prices and enhance values, and thus requires an additional emission to do the work of exchanging commodities. Notable examples thereof may be found in the experience of our own country in the revolutionary war, when paper money was issued in such abundance that $367,000,000 were put in circulation, and the amount became so great that prices rose to an extraordinary figure; money seemed to be scarce; more became necessary to effect the exchange of commodities, and was issued accordingly, until the whole mass had reached the amount above mentioned, and finally became utterly worthless.

In January, 1777, it required $1.50 of paper to purchase a silver dollar, but so rapidly did the depreciation increase that in February, 1781, it took seventy-five dollars in paper to purchase a dollar in specie.

The following bill of items, taken from Lossing's Pictorial Field-Book of the Revolution, shows the depreciation of our currency in 1781. The Clerk will please to read it.

The Clerk read as follows:

Captain A. McLane, bought of W. Nicholls:

January 5, 1781:	
1 pair boots	$600
6¾ yard colico, at $85	752
6 yards chintz, at $150	900
4½ yards moreen, at $100	450
4 handkerchiefs, at $100	400
8 yards quality binding, at $4	32
1 skein silk	10
	3,144

If paid in specie £18 10s.
Received payment in full, for William Nicholls,

JONA. JONES.

Mr. TOWNSEND. France, during her revolution, was reduced to a still more unfortunate condition; for in her great wars with the "banded nations" of Europe she had recourse to an "elastic currency," secured on and redeemable in the confiscated church lands and lands of the emigrant nobility and in dues to the government; but the issue increased with the necessities of the nation until 250 francs in assignats were required to purchase a single franc in silver.

How impotent all the power of the most despotic governments is to keep at par an undue issue of paper money is most fully shown in French history. Alison says:

> Though this depreciation [just stated] was unavoidable, the Convention endeavored to arrest it, and enacted the punishment of six years in prison against any who should exchange any quantity of silver or gold for a greater nominal value of assignats, or should ask a larger price for any article of merchandise if the price was paid in paper than if paid in the precious metals..

The Convention "condemned to twenty years of irons every person convicted of refusing payment of any debt in assignats or entering into any transaction in which they were received at less than their nominal value," yet this extreme punishment did not keep them at that value. In 1795 "bread was exposed to sale at twenty-two francs the pound, and what formerly cost 100 francs was now raised to 4,000. In the course of the year the depreciation became such that 28,000 francs were exchanged for a louis d'or, and a dinner for five or six persons cost 60,000 francs, or $10,000 in our money.

The Confederate States, too, tried the experiment of extensive issues of paper money; and long before the ruling spirits of the Southern Confederacy had despaired of the contest their money had depreciated so far that it was facetiously said down there that when it was first issued men carried their money in their pockets to market and brought their marketing home in their baskets, but the depreciation became so great that the situation was reversed, and they took their money to market in their baskets and brought their marketing home in their pockets.

With these familiar examples of the effect of overissues of paper money before us, let us learn wisdom by their experience, and not be too hasty in making a further inflation of our paper currency, which would be the prolific parent of innumerable financial ills.

Besides all these objections there is a constitutional provision that should have great weight in our action on the subject.

Because of the existence of three or four banks in different States at the time of the adoption of the Constitution, the General Government did not take charge of the paper currency of the country, but intrusted it to the action of the State Legislatures through their chartered banks. The effect of such action was the infliction on the people of the nation of a currency of unequal value, and which bore oppressively on the citizens of many of the States because of such inequality.

Now, the furnishing of a sound currency to a people is an attribute of sovereignty, and, at the same time, the highest duty of government. It is a power that should never be delegated so as to be beyond the government's control.

The Constitution says that Congress shall have power "to coin money and regulate the value thereof." Under this and another clause of the Constitution, authorizing Congress to pass all laws necessary to execute its enumerated powers, Congress claims the right to issue its greenbacks and make them a legal tender, and also to authorize the national banks to issue notes and make them a tender to a certain extent. It has thus resumed the power granted in the Constitution, but so long allowed to be lodged within the legislation of the States. It now "regulates" the currency, decides from time to time on its volume, and prevents inordinate expansion. If Congress should pass a free banking law or an "interchangeability" law, the volume of the currency would be no more under its control: there would be no "governor" to "regulate" and keep it steady, and its amount would only be determined by the speculative tendencies of the people, and the desire of "bloated bondholders" to reap large profits from their bonds and the notes issued upon them. Banks would spring up at every cross-roads; the two thousand banks now existing would soon be doubled in number, each striving to make profit by extending its issues to the full extent allowed by law; and having no guiding hand nor controlling power over them, they would be as helpless to regulate the currency as would an army composed only of companies and officered by captains to win a battle over an organized and brigaded enemy.

Under such a system specie payments would be impossible: all currency would be irredeemable paper money; there could be no practicable redemption—no touch-stone whereby to ascertain the extent of the poison that would be infused into the veins of circulation, and, consequently, nothing to warn the country of approaching danger. As all the banks would be rivals in the work of pushing out their circulating notes they would be expanding together, and in some degree proportionately few of them would feel the effect of the increasing volume of currency except in the rise of prices, and as that would seem to indicate prosperity it would occasion no alarm.

This prosperity would continue until some great banks or mercantile establishments overtrading in their line of business, and not getting prompt returns for their investments, would fail to meet their obligations, and being connected with others would bring them also down, and the influence of the failures would continue to extend until the whole country would be involved in financial ruin.

The facility with which paper money is issued is so attractive to legislative bodies that they too frequently attempt to escape present ills by additional issues of currency; but a nation that goes on increasing its depreciated paper currency is on the high road to national repudiation, of which our revolutionary history and the French revolution, already mentioned, are notable examples.

But it is said that the currency of the nation is inadequate to its present wants, and that it is financially illogical to expect that the amount that was thought to be necessary to transact the business of the country nine years ago is sufficient now when we have advanced greatly in property and population. The answer to that doctrine will be found in the fact that the great demand of the General Government during the rebellion for everything that was directly or indirectly necessary to carry on the contest enhanced the prices of all those com-

modities, and the sudden addition of a large amount of bank-notes and greenbacks inflated prices still more, and thus there was required a much larger volume of currency to effect the transactions of the nation while in that abnormal state than was necessary in ordinary times.

Since the contest has ended and business affairs have resumed more of their normal condition there has been a great shrinkage of values; the prices of the great staples of wool, cotton, iron, wheat, sugar, &c., have fallen from 20 to 50 per cent., and the same amount of currency that was required during our national troubles is abundantly sufficient now to make all the transfers of the property of the people, although that property may have been largely increased in quantity.

The whole bank-note circulation of the United Kingdom of Great Britain and Ireland in 1844 was only £28,000,000, and in 1872, twenty-eight years thereafter, it had only increased to £30,000,000, although the commerce of the nation had been greatly enlarged. The whole circulation of that kingdom, both of paper and gold, does not to-day exceed $600,000,000, although her foreign commerce is two and a half times as great as ours, while our authorized circulation is over $750,000,000.

In this connection it is important to remember that the currency of a country performs but an insignificant portion of the exchanges of the property of the people. The best writers on the subject say that in countries like England and our own it does not perform more than one-fifth part of such exchanges, and those principally of the retail trade. The remainder is done by bank credits, by loans and discounts, the greater part of which, especially in cities, assume the form of deposits, and are passed from hand to hand by checks in dealings and settlements.

The fact that the clearing-house of New York alone for the last ten years made daily exchanges to the average amount of ninety-six millions, nearly equal to one-seventh of our circulation, which were all settled with an average of three and a half millions daily, mostly paid in checks or clearing-house certificates, demonstrates the great influence bank credits have in performing the business of the country; and the additional fact that bank loans have expanded in eight years from $500,000,000 to $940,000,000, while the currency was stationary, shows that there had been not only enough, but too much of credit infused into our business affairs.

If it were not so, why should greenbacks be worth only ninety cents on the dollar? Their depreciation in former years arose from two causes. One was the sudden issue of large masses of greenbacks and bank-notes on the community, and the other was the doubt that existed in the midst of the great conflict whether they would ever be redeemed. The latter doubt has been removed, and the credit of the Government is such that it has been enabled to reduce $250,000,000 of its 6 per cent. loan to 5 per cent., being a figure below what individuals generally have to pay.

The only remaining reason of its depreciation must be that it continues in excess of the legitimate wants of the nation, and that its payment is indefinitely postponed. Its supposed scarcity arises from a want of confidence among the people which causes hoarding for the time; with confidence restored it will be as plenty as ever; but to add to its bulk while thus depreciated will only be to exaggerate existing evils by depreciating it still further.

It is the experience of modern commercial nations that the best method of sustaining a sound and even paper currency is by requiring its redemption in coin. So long as it is thus redeemable it approxi-

mates to a stable value, but as soon as it ceases to be redeemable it fluctuates in value, and the prices of all commodities that are measured by it become uncertain. It is then as if our yard-stick should vary in length, or our bushel measure should vary in capacity from day to day.

An irredeemable currency (always fluctuating in value) bears hardest on the laboring classes, for while it is expanding and contracting, their wages mostly remain stationary. Its fluctuations induce speculative enterprises, raise and lower prices of the necessaries of life, and as it increases in volume it makes vast fortunes for the few, while its shrinkage brings ruin on the many. Its tendency is to increase imports and discourage exports, and thus to augment the balances of trade against us in foreign countries.

It is contended by some that we have a currency of our own that answers our purposes in the exchange of commodities, and that we need no other. This reason might be a sound one, perhaps, if we were so isolated as to hold no intercourse with foreign nations.

The savage tribes of Africa may have a sufficient home currency in their cowries or shell-money, but when they purchase cotton cloths or arms from Europeans their currency will not avail in payment, and they must return something of intrinsic value in the commercial world, and sought by all, such as gold-dust or ivory.

We are not isolated by a surrounding Chinese wall, but constitute a member of the great family of nations, holding commercial intercourse with them all. In our dealings with them we can exchange our commodities for theirs, but if there should be a balance due to either party, that balance must be liquidated in the only medium recognized by all civilized countries—gold or silver—because all dealings between nations are made with reference to them as the measure of values.

Our foreign commerce, through our exports and imports, for the fiscal year ending June 30, 1873, exceeded $1,200,000,000, all of which was valued in specie currency and not by our national paper money. Under a commercial necessity we paid in the liquidation of balances due by us abroad $66,000,000 in gold and silver coin and bullion for that fiscal year, being a sum considerably beyond the annual product of our mines.

This metallic currency not only affects the price of imports and exports, but also affects the price of all other commodities that are exchanged therefor. Thus that currency exerts its influence on a large portion of the articles that enter into the uses of our every-day life; and as in our internal affairs we buy and sell with the paper dollar, which, as measured by gold, varies every hour, the result is that no one making a contract to be consummated a day thereafter can tell what he may have to pay or to receive, or whether he will gain or lose when such a contract shall be fulfilled. The merchant with his merchandise, the farmer with his produce, the mechanic for his wages, are all uncertain as to their remuneration, and buy and sell and labor under a currency as restless as the waves of the sea, and sometimes as destructive in its inflations and contractions as the ocean in a storm. No one is benefited by its unceasing changes save the stock-gambler, the broker, and speculator, the stormy petrels of an irredeemable currency, who are happiest and most prosperous when its fluctuations are greatest and most disastrous to the people at large.

The national industry, and the plighted word of the nation, whose Congress has said "that the faith of the United States is solemnly pledged to the payment in coin, or its equivalent, of all the obligations of the United States not bearing interest, known as United

States notes," alike demand that the earliest practicable measures should be taken to redeem that solemn pledge.

Hence the importance of a return to specie payments cannot be exaggerated; and although the inflationists seem to think that by present moderate expansion that end may be attained, yet it seems to me that to attempt to correct the evil results of undue inflation, or to bring about resumption by the issue of additional paper money, now worth only ninety cents to the dollar, would be about as wise as to endeavor to enhance the price of wheat or corn by producing extra crops, or to extinguish a conflagration by a stream of coal-oil.

The road to specie payments is always a very rugged one. That result can only be reached by suffering. It has always been so heretofore; it must be so again. All rapid fluctuations in the value of the medium of payments will affect somebody. When our currency during the rebellion was rapidly inflated it depreciated in value; prices rose, debtors paid their obligations in notes worth from forty to sixty cents on the dollar, and the creditor suffered, and all persons living on annuities and other fixed incomes were reduced to straitened circumstances. As the currency contracts the contrary effect is felt; the currency rises in value, there is a shrinkage of values of commodities, and the debtor finds his means of payment diminished, and he in his turn becomes the sufferer. It is the fear of this contraction that makes the people clamorous for more paper money, but specie payments can never be reached without such contraction or its equivalent, as our previous experience in our former resumptions has shown.

What then, it may be asked, are the means whereby we may obtain that only currency which will tend most to keep steady the values of property; give a sufficient medium of payment; prevent bank suspensions, and enable men to deal with each other with safety and security? The Secretary of the Treasury, in his last report, suggests the means therefor. He says:

> Should the national banks be prohibited from selling the coin received by them as interest upon bonds pledged to secure circulation, retaining the same in whole or in part in reserve or loaning it in the discount of bills and notes payable in coin, as Congress might prescribe, there would a be gradual accumulation of gold in the banks which would do something toward preparing for resumption.

I do not agree with him. When we remember that the whole amount of gold which we annually raise from our mines is used in payment of balances due to foreign countries and in the arts, the effect of such a policy may readily be foreseen.

The whole amount of gold in the Treasury, banks, and country at large, is estimated by the Director of the Mint at $140,000,000. The interest we annually pay in coin to the banks is nearly $24,000,000. The annual abstraction of that amount from its accustomed channels and hiding it in bank vaults would raise the price of gold in two ways: first, by the increasing scarcity of gold; and, secondly, by the expansion of the paper currency released from the reserves to the amount of the gold thus retained in the banks. The difficulty of obtaining gold would increase with each payment of interest to the banks, until the price would rise to a ruinous premium. This state of affairs would reduce the volume of imports, and consequently reduce the revenues derived from that source, until we would again have to resort to internal taxation to obtain the means to pay our interest. It is only by the constant circulation of gold that our merchants are enabled to obtain it to pay duties.

It is true, as the Secretary says, that by his plan "it would accumulate in the banks," but at the same time it would be withdrawn from

the people, with the result as I have stated. The only means whereby the banks and the Treasury can be filled with sufficient gold to resume specie payments is to turn the balance of our trade with foreign countries in our favor, and thus prevent the annual drain of gold from our shores.

To reach specie payments we must first reform the errors that have crept into our banking system.

We must make it a penal offense, punishing severely the offending officer who willfully and knowingly certifies checks when there is no money in the bank to meet them. The law of 1869, passed to prevent that very mischief, is disregarded, and has been allowed to remain a dead letter until recently. The Comptroller has, however, two cases of delinquencies in hand, and proposes to prosecute them with vigor. I trust he will.

We must prevent, by proper penalties, the payment by banks of interest on deposits. The practice is pernicious in the highest degree. Banks should be lenders, not borrowers. The surplus balances of the country banks should not be allowed to be decoyed to New York, for the purpose of enabling Wall-street operators to carry out their speculations to the disturbance of the business of the nation. They should be kept for their customers at home.

The New York clearing-house committee, in their recent admirable report, expose these dangerous practices and condemn them in the proper terms, and recommend their abandonment, but there are some national banks which think their profit lies in their continuance and will not abandon them. Congress must, therefore, lay its hand on them, and restrain them by appropriate legislation.

As a matter of self-defense and public benefit the banks, especially of great cities, where runs on them first commence, should open two kinds of deposit accounts with their customers. One should be a "cash account," payable on demand in greenbacks or national-bank notes; the other a "credit account," payable in checks receivable through the clearing-house, and receivable in payment of debts due the banks. The committee of the clearing-house see the eminent propriety of such a distinction, and timidly allude to it, but fear to recommend it in the present state of financial affairs. It is, however, very just and proper. Able writers have heretofore advocated it by unanswerable arguments; but the banks fear innovation on established usage, and hesitate to adopt it.

Mr. Colwell, in his Ways and Means of Payment, (page 408,) says:

> We have said, and the figures we have adduced show, that convertibility of the notes and deposits of our banks is impossible, even when the banks are in the best condition; and that this must continue to be the case, constituted as the banks of the United States are, is as certain. The main feature of the business of these banks is the discount of notes maturing at a future time. We have previously assumed that the average time to run of the paper thus discounted is ninety days, or one-fourth of a year. They issue to the parties at whose instance these discounts are made their notes, payable on demand, or give them credit on their books for the proceeds, payable in like manner on demand.
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> The deposits of the banks are made up almost altogether from the notes thus issued and the credits thus granted. The circulation and deposits of 1856 amounted to $445,000,000, for which the banks, by this mode of doing business, became liable on demand; that is, they received from their customers claims on the public, maturing in three months, and they became liable to pay a certain amount on demand—in the year 1856, for instance, in every three months $445,000,000, and in 1857 in every like period $500,000,000.
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> The paper discounted by the banks, not being payable on demand, would only be paid and could only be demanded as it matured from day to day. Whether the sums thus paid into the banks were eight or ten millions daily, it was all the banks could exact, and if the notes had not been discounted, the amount required to pay them would have been the same. But the banks became liable to the payment of $445,000,000 to $500,000,000 in any one day in 1856 and 1857—a position, stripped

of the mists and prejudices which constantly surround it, which should be called, as it really is, stupendously absurd; and, in times of commercial revulsion, not less dangerous than absurd.

I need only add that to meet these immediate liabilities the banks only had in 1856 specie to the amount of $58,000,000, and in 1857 to the amount of $74,000,000, to show the force of his reasoning.

A still earlier writer, Mr. J. S. Gibbons, in his Banks of New York and the Panic of 1857, (pages 389–390,) says:

> There are certain anomalies in force as applied to banks by which they are exposed to extreme liabilities, not only in seasons of pressure, but at all times. By a strange absurdity of law the deposits of a bank are held to be payable in specie on demand, although the amount of specie in the whole country is not sufficient to pay the one-twentieth part of them. It is, therefore, plain that the banks might be forced into suspension by the depositors at any moment, without regard to the state of the market.
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> The actual relation between the bank and the dealer gives no color of right to the latter to demand specie for his deposit. He is fully aware that the bank does not consider itself holden for the coin. He does not give coin, and why should he take it? He deposits a form of credit, or individual currency, checks. When this form of currency sinks in general depreciation, by what rule of consistency or justice can he require the bank to fill up the deficit? The depreciation originates with the dealer in the excess of trade, and not with the bank. It may encourage the excess by loaning too freely, but the dealer is not obliged to borrow. There is obviously no propriety in his loading the bank with the ill consequences of his own action; yet such is the accepted rule.

In Mr. Gibbons's more recent work on the United States Debt, Finances, and Taxation, (page 204,) he says:

> This reasoning brings us to the necessity of a radical change in the constitution of banks; and that is the repeal of all laws which impose the redemption of pure forms of credit in specie. Nothing can be more anomalous than the requirement that a bank shall pay its deposits in gold, and nothing so unjust to labor. The theory runs into the extremest absurdities the moment it is put into practice. While it is not enforceable by law that one bank shall redeem the notes of another, the latter may be deposited in account, and the check of the depositor is then allowed to enforce payment in specie. If a bank be liberal enough to its dealers to discount their promissory notes exchanged with each other on the basis of pure credit, they have the legal right to demand specie for the proceeds in the same hour; and this in spite of the prior obligation of the bank to pay specie for its circulating bills, the holders of which are then cheated out of their rights. * * *
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> Any organization of our finances, with this root of error at the bottom, will put the whole system of commerce at the risk of perpetual disturbances and bring defeat at last.

I am not aware of any law which prevents the banks from making such contracts with their creditors; but if there is, it should be remedied by congressional legislation, for it is the depositors of banks, and not the note-holders, who make runs and cause suspensions.

In addition to these reforms in the banking system, we must reform ourselves. We must adopt the plain and simple rules of retrenchment, frugality, and economy. We have lived too fast, and beyond our means. As a nation, we are the most extravagant people in the world. The high prices engendered by the necessities of the Government and the vast fortunes made out of contracts have demoralized the people, and the average yearly expenditures of families are far in excess of what they were but a few years ago. The inflation of the currency, the ease with which money could be obtained, and the inordinate expansion of the loan and deposit lines of the banks were powerful inducements to all kinds of speculations in stocks, bonds, railroads, manufactures, mines, &c., and the sad consequences of which are daily seen in the failure of great manufacturing and mercantile establishments, in the breaking of banks, and the defalcation of officers in places of financial responsibility.

As a nation, too, we have overtraded; and for many years we have been regularly running in debt to foreign countries, until our debt abroad is estimated to exceed $2,000,000,000, involving the necessity of paying interest to foreigners to the amount of $100,000,000 a year.

Before we can reach permanent specie payments all this must be reformed. As a nation and as individuals, we will have to reduce our expenditures; we must buy less from and sell more to foreign countries, and must so manage our agriculture, manufactures, and commerce, that the balance of the foreign trade shall be in our favor; we must increase our stock of coin; it does not amount to one hundred and forty millions all told—it goes out of the country to pay balances as fast as it is mined—while our circulation and deposits amount to over thirteen hundred millions. We should also fix a reasonably distant day for the Government to resume, and make our preparations accordingly.

Our paper currency is the best we ever had; it is uniform in value all over the Union, and if not inflated by the "interchangeability" principle or "free banking," it will within a reasonable time be at par. It was carefully hoarded during the late suspension of payments, and for two reasons. One was that its ultimate redemption was secured, and the other was that there was nothing else to hoard; for specie has long since left the channels of circulation. Confidence (on which the credit system is based) is returning to men, and the symptoms are that money will very soon be as abundant as ever, as the movement of the New York money market shows.

The National Board of Trade, at its late session in Baltimore, just closed, deprecates the further issue of irredeemable paper money; it calls for the withdrawal and cancellation of the forty-four million reserve, and strict economy in the appropriations. With all these recommendations I heartily agree, but from its recommendations that the banks should hoard their gold interest I must dissent, for the reason already given.

Let us, then, let well enough alone. The currency question is chiefly a commercial question and not a legislative one, and until the currency reaches a point, either by gradual contraction of bank credits or by its absorption by the business of the country in its daily exchanges, so as not to be in excess, we can neither have the balance of trade in our favor nor sustain specie payment. Then, and not till then, can the Government, after proper preparation, resume. It must resume first and then the banks can easily follow.

"Economy, retrenchment, and reform" must be the motto of individuals and of the nation, and until these are adopted and carried into practice we must expect to blunder on, under a fluctuating currency, sometimes exalting us to a pinnacle of seeming prosperity and sometimes plunging us into the depths of financial despair.

I yield the balance of my time to the gentleman from New Jersey, [Mr. HAMILTON.]